Federal Housing Finance Agency
Constitution Center
400 7th Street, S.W.
Washington, D.C. 20219
Telephone: (202) 649-3800
Facsimile: (202) 649-1071
www.fhfa.gov

August 30, 2022
**Via Electronic Mail**

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

RE: Notice of Proposed Rulemaking on Regulation Implementing the Adjustable Interest Rate (LIBOR) Act (Docket No. R–1775, RIN 7100–AG34)

Dear Ms. Misback:

The Federal Housing Finance Agency (FHFA) is pleased to submit comments in response to the Board of Governors of the Federal Reserve System's proposed regulation that would implement the Adjustable Interest Rate (LIBOR) Act. FHFA is the safety and soundness regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHFA's regulated entities, or GSEs). FHFA is also conservator of Fannie Mae and Freddie Mac.

FHFA supports the efforts of Congress and the Board to enhance market stability and transparency associated with the London Interbank Offered Rate (LIBOR) transition. The LIBOR Act and the Board's implementing regulations will provide clarity and certainty to mortgage borrowers with Adjustable-Rate Mortgages tied to LIBOR (LIBOR ARMs) and to other market participants with exposure to this benchmark rate as they transition away from LIBOR.

As you know, FHFA's regulated entities insure over $7 trillion dollars of mortgages. FHFA's regulated entities have in the past issued, purchased, or insured many products tied to LIBOR including LIBOR ARMs. Many of these legacy LIBOR ARMs products do not have adequate language that identifies a replacement should LIBOR no longer be produced or representative. FHFA has worked proactively since 2017 to ensure its regulated entities, Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, successfully transition away from LIBOR-based financial products.

Use of 30-day Average SOFR for Covered GSE Contracts

FHFA supports the Board's proposed rule and in particular the designation of 30-day Average SOFR as a comparable replacement rate for covered GSE contracts. FHFA has worked with its regulated entities to move all of their newly-issued products to reference averages of daily SOFR. We believe that SOFR averages, which are created from daily SOFR rates, are more robust and therefore appropriate in most circumstances while offering better opportunities for hedging.

In addition, by using 30-day Average SOFR, which has been adopted as the benchmark rate for most newly-issued products of the types listed as covered GSE contracts, the Board's proposed rule would enhance liquidity for both these newly-issued products and the legacy LIBOR-based products.

FHLBank System Request

The FHLBanks have requested that the Board's regulation use an average of SOFR calculated in arrears (*i.e.*, at the end of the period) as the fallback for the loans ("Advances") they make to their members. As the SOFR average calculated in arrears is still a robust average of daily SOFR, FHFA supports this request. Using the in arrears average of SOFR will help the FHLBanks better align their cash flows. FHFA also recognizes the FHLBanks' request that the Board's regulation allow the minimum needed conforming changes to determination dates and payment dates necessary to implement SOFR in-arrears terms.

FHFA appreciates the opportunity to comment on the proposed rule and your consideration of the views expressed here.

Thank you for considering FHFA's comments on this matter.

Sincerely,

Daniel E. Coates

Daniel E. Coates
Deputy Director
Division of Research and Statistics

Executive Sponsor, Reference Rate Transition Working Group
Chair, Reference Rate Transition Steering Committee